



## Slow growth seen for Western Massachusetts economy in 2012 despite hopeful signs

Published: Sunday, February 12, 2012, 5:31 AM

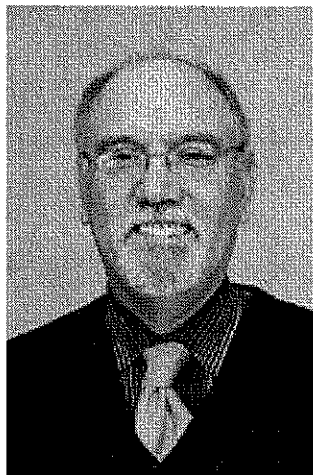


By **Jim Kinney, The Republican**

Ask pretty much any economist or business leader to look into the crystal ball and see what 2012 will bring, and every answer boils down to one phrase: cautious optimism.

"God I hate the phrase, but we are starting to see some green shoots," says **Robert A. Nakosteen**, a professor of economics and statistics at the Isenberg School of Management at the University of Massachusetts in Amherst. "There seems to be some optimism in the air."

Such optimism could evaporate very quickly, though, due to continued economic problems in Europe, persistently high unemployment and household debt that keeps consumers from spending and keeps the economy from really taking off, Nakosteen warns.



Robert Nakosteen

The U.S. economy grew by 2.8 percent in the fourth quarter of 2011, its fastest rate of growth in a year and a half. Massachusetts grew at a slightly slower rate, 2.3 percent, according to MassBenchmarks, a quarterly study of the state's economy.

That slow, but as yet steady, rate of growth is cold comfort to the 26,034 Springfield residents who were unemployed in December, according to the state Executive Office of Labor and Workforce Development. Statewide, there are about 228,000 people out of work.

And, executives seem reluctant to hire, even if they don't predict more layoffs.

An Associated Industries of Massachusetts survey issued in January found that 24 percent of the employers who responded to its monthly business confidence survey plan to add staff in the first half of 2012. Just 8 percent predict cutting their staffs. The remainder plan to stand pat.

In the Pioneer Valley, the optimism seems to be expressed in the new businesses opening in downtown Westfield.

Optimism is also being expressed in the \$168 million Massachusetts Green High Performance Computing Center, scheduled to be finished by the end of this year in Holyoke.

It's being expressed in companies like **Titeflex**, a maker of Teflon hoses with woven cladding and in Warren Pumps, a maker of pumps for the Navy and for the oil industry. One of the region's stalwarts, Smith & Wesson, also added manufacturing jobs in 2011 as it moved its Thompson-Center production here from a plant that closed in New Hampshire.

Just last month, Agawam's **Microtest** labs announced it will manufacture a new vaccine designed to combat cellac disease. The vaccine is part of a \$20 million project by ImmusanT Inc., of Cambridge. Microtest has about 80 employees.

Baystate Medical Center plans to open the first phase of its \$296 million "Hospital of the Future" in March.

There are three separate proposals for a single casino license that will be awarded in Western Massachusetts under the terms of the state law passed in 2011 following decades of debate. The winner could be in Holyoke, Springfield, Brimfield or Palmer.

Allan W. Blair, the president and chief executive officer of the Western Mass Economic Development Council, says it is the signature event of 2011, a series of tornadoes that cut a 39-mile swath of destruction from Westfield to Sturbridge in June, that will provide the biggest economic development opportunity of 2012.

#### **OUTLOOK 2012**

**See more stories from The Republican's Outlook 2012 special section.**

"I hope 2012 is not a story of planning," Blair said. "I hope it is a story of project implementation where we keep rebuilding from the storms and we start taking advantage of the Holyoke computer center."



Polina Vlasenko

Manufacturing, particularly high-precision work, is a continued strength of the region's economy, Blair says.

But demand for real estate, both commercial and residential, is still very low, he said.

Polina Vlasenko, an economist and research fellow at the American Institute for Economic Research in Great Barrington, predicts more slow, steady growth in the national economy for 2012. That's especially good news if one remembers that there was talk a year ago of the potential for a double-dip recession.

"Now 8.5 versus 9 percent unemployment is not dramatic improvement, but it

is going in the right direction," Vlasenko said. "The most important thing is that government no longer seems to be the primary driver of this thing, as it was back during the stimulus."

Government stimulus of the economy can't last forever, however, Vlasenko said; eventually the starter motor has to kick off, and the engine has to start chugging on its own.

"When the consumers spend and business produce more, that can go on forever," she said.

Consumer spending is up, but income is not, Vlasenko added. "This is worrisome because it leads to consumer debt, which eventually lowers consumption," she said.

When the consumer is in debt, "he behaves differently when he gets more money," Vlasenko said. "When you have debt, especially debt you are worried about, if you get more income, you just pay down your debt."

This year's presidential election won't help either, according to Vlasenko. All those competing ideologies won't let businesses plan, and Congress will be afraid to pass anything for fear of upsetting voters, she said.

"But the election will be over in November," she said. "European debt will stay."



Michael Goodman

Most economists assume Europe is already in a recession. Beside being a trading partner for Massachusetts-based technology companies, Europe is also woven into the U.S. banking system.

"If something were to really go badly there in terms of the banking system, it will probably spill over here."

Europe is also a major source of private investment capital for businesses looking to either get started or grow, said Michael D. Goodman, a professor of public policy at the University of Massachusetts at Dartmouth.

"Here is a factoid that should keep you up at night: Europe provides \$5 trillion a year in credit to in the United States, a figure equal to our traditional banking system," Goodman said. "Our fate is very much in the hands of our policy makers both in Washington and in Europe."

© 2012 masslive.com. All rights reserved.